

Status Report on Integrated Governance Implementation

Alan J. Heuer, President, U.S. Region

Topic

To brief the U.S. Board of Directors on the status of the integration of deposit access governance into the regional governance framework implemented for MasterCard-branded products and services in 1996, in anticipation of seeking related Board decisions in first quarter 1997.

Background

In an effort to refine and streamline MasterCard International's governance process, a framework development effort -- the Corporate Governance Project -- was initiated in May of 1994. The intent of the effort was to improve the overall efficiency and effectiveness of the Company's governance structure by:

- Systematically empowering regions to take action, and
- Reinforcing the linkages and cohesiveness between the global, regional, and subsidiary governance levels.

On March 31, 1995, the Global Board approved the MasterCard Delegations Framework (Refer to Attachment A for a summary of this framework). On July 20, 1995, the Global Board approved the Bylaws changes required to formalize the revised governance framework for MasterCard-branded products and services. At that time, the Global Board also approved a resolution to extend said framework to MasterCard's deposit access products in an expedited (i.e., by first quarter 1997 on a best efforts basis) manner, achieving an integrated approach to governance MasterCard, Cirrus, and Maestro in all MasterCard regions.

In approving this integrated governance approach, the Global Board recognized that:

1. All aspects of the MasterCard business should be governed by a single, fully integrated payments board,
2. Regional management, with the support of the regional boards, should be fully accountable for MasterCard, Maestro, and Cirrus results in seven key performance areas (Refer to Attachment B to this Exhibit for a summary of the regional performance and accountability dimensions), and

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3. The Global Board remains ultimately responsible for ensuring the cohesiveness of all global brands and selected product features, ensuring acceptance and adherence to rules for all global brands, as well as fulfilling an oversight role with respect to regional decisions.

Once the integrated governance framework is implemented for all MasterCard regions for all three brands, the MasterCard regional boards will have the authority necessary to "get the job done" on behalf of Company within their respective regions. Furthermore, implementation of this framework will significantly streamline MasterCard's decision-making process and enhance the Company's ability to meet customer needs and generate sustainable and profitable growth for the membership.

Analysis

When we analyzed the feasibility of integrating regional governance for MasterCard, Cirrus, and Maestro, findings showed that:

- The separation of Maestro and Cirrus governance introduced the risk of strategic divergence for products that are sold together to the same customers.
- The need to obtain multiple board level approvals for some agenda items lengthened our time to market, and
- There was limited formal linkage between the Cirrus governance structures and our MasterCard regional boards.

Additionally, our analysis identified key trends on the horizon such as chip migration, the advent of relationship products, and brand convergence that will drive the integration of payments product functionality and delivery forward at an accelerating pace. We believe that rapid change will continue to redefine our business environment.

These findings were the basis for recommending integration (simplification) of our global and regional governance.

Next Steps

Cirrus

In accordance with the Global Board's 1995 directive, we are currently taking all the management and legal steps necessary to empower MasterCard regions with specific decision making authority for Cirrus. From a global perspective, these steps include regionalizing the Cirrus corporate structure, revising/consolidating the appropriate Cirrus and MasterCard bylaws and rules, and adjusting our internal policies and

procedures to support the physical implementation of the delegations in early 1997. In November, the boards of Cirrus System Inc. and MasterCard International will be asked to approve key steps (e.g., necessary bylaws and rules changes) management is taking to implement integrated governance for Cirrus in a seamless and timely manner. From a regional perspective, over the next several months, regional management will continue evaluating the extent to which deposit access expertise and interests are represented in the existing regional governance constructs and will identify any steps necessary to improve efficiencies. In late 1996/early 1997, regional boards will be asked to review and approve revisions to the regional board rules that enable the regional boards to assume the delegated authorities for Cirrus by first quarter 1997.

Maestro

At this time there will be a limited integration of the governance of Maestro U.S.A., Inc., to bring its governance into alignment with the governance of other regional Maestro licensors. To this end, the Executive Committee will be requested to approve a change to the bylaws and certificate of incorporation of Maestro U.S.A. to reduce the number, and change the eligibility criteria, of its directors so that the current member board of can be reconstituted as a staff board. Unlike Cirrus, Maestro-branded products will not now be formally integrated into the delegated authorities framework as Maestro's rules are currently regionalized and managed by staff boards. Delegation to the US Board for Maestro-branded products will be accomplished by way of a brand management agreement between Maestro U.S.A., Inc., and MasterCard International, under which agreement MasterCard International will be permitted to delegate to the US Board authority over the Maestro brand in the United States. Such delegation will be consistent with the delegation framework for the MasterCard- and Cirrus-branded products. The role of the staff board is anticipated to be limited to maintain the corporate existence of Maestro U.S.A., Inc., under the laws of its state of incorporation (Delaware) and to provide formal approval of decisions made by MasterCard board as discussed above.

Delegations Framework

Attachment A
to Agenda Item 5.A

Regional Boards will be empowered with specific authorities for Cirrus, in addition to the MasterCard delegations they already exercise, by March 1997. The Global Board has ultimate authority for the entire spectrum of MasterCard payments products. Regional Boards only have the authority specifically delegated to them by the Global Board. Any authority not specifically delegated is retained by the Global Board.

- 1) Approve/deny all product license applications and elect members
- 2) Establish and approve intra-regional fines and disciplinary actions
- 3) Approve regional portion of annual budget: Method of Generating Funds to Cover Regional Budgets, Disposition of Surplus Funds, and Special Purpose Funding
- 4) Approve intra-regional interchange fees
- 5) Approve intra-regional variances to operating rules, policies, and procedures
- 6) Approve intra-regional product and enhancement development
- 7) Approve specific affinity and co-branding rules: Allowance of multiple A/CB logos, discounts at POS, and proprietary accounts, as applicable
- 8) Approve governance ground rules

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Expectations of Regions — Performance Dimensions

Attachment B
to Agenda Item 5.A

All regions operate in a way that upholds global customer standards and contributes to the achievement of MasterCard International goals and corporate objectives.

MasterCard regional management with the support of their respective boards:

- *1) Ensure that issuance and awareness of all MasterCard payments products are as high as possible.
- *2) Deliver unsurpassed acceptance of all MasterCard payments products -- both real and perceived.
- *3) Support the quality and integrity of our global operating systems.
- *4) Ensure all global bylaws and rules and standards for all MasterCard payments products are complied with; To better meet local consumer needs, identify and secure intra-regional variations (as required) that support global customer standards.
- *5) Manage financially in such a manner that the corporation can afford the investments required to meet ever-changing customer needs, including initiatives to enhance brand awareness, upgrade technology, and contribute to global or regional initiatives of strategic importance.
- 6) Manage MasterCard regional boards in a manner that ensures the long-term health of the corporation.
- *7) Provide added value to members through research, marketing, operations, and financial activities, so that customer needs and expectations are addressed.

- Denotes a measurable performance dimension through operational data collection, regular research/surveys, and compliance audits to be developed and conducted.

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Regional Accountability for Performance

(Continued)

- Regional boards accept responsibility for ensuring that regional progress is made against all "7" performance dimensions for all payments products.
- MasterCard regional management regularly reviews payments product performance with regional boards and, to the extent delegated, the regional boards take actions necessary to improve performance.
- MasterCard regional management, in concert with the regional boards, monitor and report progress against all "7" performance dimensions for all payments products on a regular basis (minimum of at least yearly) to the Global Board and President and CEO.
- President and CEO and Global Board evaluate progress to determine if regional performance is in line with corporate expectations and standards.
- Global Board has the authority to modify, in whole or in part, any authority delegated to regional boards if performance is not meeting corporate expectations over a sustained period.

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U.S. Region Committee Framework Review

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Purpose

To provide the U.S. Board of Directors with an overview of the recommendations for refining the U.S. Region committee structure to ensure continued support of member and MasterCard management business needs.

Background

This review was initiated in order to address concerns raised by members and senior staff regarding the business purpose, benefits and costs associated with the existing committee structure in the region (see Attachment A). Additionally, it was important that a committee framework be established that fully supports the integration of deposit access into the regional governance process.

In support of ongoing business development and the integration of our payments businesses into the board process, a comprehensive review of the committees was initiated in May. The intent of the review was to evaluate and determine the business focus, mission and rationale for each committee, ensure communications linkage of committee activities to the U.S. Board, minimize the cost to the association, and assess the contribution of the committee to achievement of member and region objectives. The overall goal was to establish a framework to create the most effective committee process for the region and our members.

Recommendations

The project conclusions were reviewed by U.S. senior management and will be implemented effective January 1, 1997. The following embodies the recommendations:

- The Committee structure will be streamlined and roles of each committee clarified.
- In accordance with the Global Board's 1995 directive for integrated governance, MasterCard has taken all management and legal steps necessary to empower the region with specific decision-making authority for U.S.-related Cirrus and Maestro businesses. As a result, a senior deposit access committee will be formed to ensure continued deposit access expertise and interests are represented in the region and to provide senior

management with the support necessary to bring deposit access-related items to the U.S. Board for decision.

- The revised structure (See Attachment B) will include a Senior Credit Committee (formerly the U.S. Business Committee), a Senior Deposit Access Committee, an Acquirer Committee and a Commercial Products Council. Additionally, the U.S. Region will participate, as it has in the past, on the Joint Global Deposit Access Operations Committee. Ad hoc work groups will be utilized in the future to address issues that require intense focus for a finite period of time (e.g. Premium Card, Deposit Access Risk Management, etc.).
- Streamlining the existing committee structure from a thirteen body structure to four U.S. groups will: allow continued strategic and tactical expertise and input from the membership; improve communications linkages to senior management and the board; continue to support the growing businesses of deposit access and commercial products; and reduce committee cost and resource requirements.

As the payments environment continues to evolve both domestically and globally, it is important for the U.S. Region to have the most efficient and streamlined committee support structure possible to continue to anticipate and respond to member and consumer needs. The committee framework refinements will better position us to achieve these goals.